JOEL POMERENE MEMORIAL HOSPITAL

COMBINED FINANCIAL STATEMENTS

DECEMBER 31, 2009 AND 2008

Mary Taylor, CPA
Auditor of State

Board of Directors
Joel Pomerene Memorial Hospital
981 Wooster Road
Millersburg, Ohio 44654

We have reviewed the *Report of Independent Auditors* of the Joel Pomerene Memorial Hospital, Holmes County, prepared by Blue & Co., LLC, for the audit period January 1, 2009 through December 31, 2009. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Joel Pomerene Memorial Hospital is responsible for compliance with these laws and regulations.

Mary Taylor

Mary Taylor, CPA
Auditor of State

May 10, 2010

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JOEL POMERENE MEMORIAL HOSPITAL

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CPAs ADVISORS

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REPORT OF INDEPENDENT AUDITORS

Board of Trustees
Joel Pomerene Memorial Hospital
Millersburg, Ohio

We have audited the accompanying combined balance sheets of Joel Pomerene Memorial Hospital (the Hospital), a business-type activity of Holmes County, Ohio, as of December 31, 2009 and 2008, and the related combined statements of operations and changes in net assets and cash flows for the years then ended. These combined financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these combined financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1, the financial statements of Joel Pomerene Memorial Hospital are intended to present the financial position and the changes in financial position and, where applicable, cash flows of only that portion of the business-type activities of Holmes County that is attributable to the transactions of Joel Pomerene Memorial Hospital . They do not purport to, and do not, present fairly the financial position of Holmes County as of December 31, 2009 and 2008, the changes in its financial position or, where applicable, its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined financial position of the Hospital as of December 31, 2009 and 2008, and the combined results of its operations, changes in net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 16, 2010 on our consideration of the Hospital's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

The Management Discussion and Analysis on pages i through vi is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Blue & Co., LLC

April 16, 2010

The discussion and analysis of the combined financial statements for Joel Pomerene Memorial Hospital (the Hospital) provides an overview of the Hospital's financial activities for the years ended December 31, 2009 and 2008. The intent of this discussion and analysis is to provide further information on the Hospital's financial performance as a whole; readers should also review the notes to the basic financial statements to enhance their understanding of the financial performance.

Financial Highlights

- Net assets decreased $974,497 from $24,514,007 at December 31, 2008 to $23,539,510 at December 31, 2009.
- Operating income (loss) was $96,224 for 2008 and ($1,145,240) for 2009.
- Net accounts receivable decreased $41,955 from $4,281,384 at December 31, 2008 to $4,239,429 at December 31, 2009. Net days in accounts receivable changed from 52 at December 31, 2008 to 53 at December 31, 2009.
- From December 31, 2008 to December 31, 2009, total assets decreased $2,065,385; total liabilities decreased $1,090,888 and current liabilities decreased $928,617.
- Net cash flows (used by)/provided from operating activities were $2,500,892 during 2008 and ($95,134) during 2009.

Using This Annual Report

The Hospital's financial statements consist of three statements – a balance sheet; a statement of operations and changes in net assets; and a statement of cash flows. These financial statements and related notes provide information about the activities of the Hospital, including resources held by the Hospital but restricted for specific purposes by contributions, grantors, or enabling legislation.

Joel Pomerene Memorial Hospital (the Hospital), a business-type activity of Holmes County, is organized as a county hospital under the provisions of the general statues of the State of Ohio.

While the County is empowered to appropriate money from its general fund, from certain state and federal money it receives, and with approval of the electorate, levy taxes to support the operation of the Hospital, the Hospital has been self-supporting and receives no County appropriations for operations.

The Board of Trustees, appointed by the Board of County Commissioners, the Probate and Common Pleas Judges, is charged with maintenance, operation and management of the Hospital, its finances and staff. The Hospital's primary mission is to provide high quality, cost-effective healthcare in a compassionate and friendly manner to the citizens of the greater Holmes County community.

The combined financial statements include the accounts and transactions of the Hospital and Joel Pomerene Foundation. All significant inter-company accounts and transactions have been eliminated from the financial statements.

The Balance Sheet and Statement of Operations and Changes in Net Assets

One of the most important questions asked about the Hospital's finances is, "Is the Hospital as a whole better off or worse off as a result of last year's activities?" The balance sheet and statement of operations and changes in net assets report information about the Hospital's resource and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Hospital's net assets and changes in them. You can think of the Hospital's net assets – the difference between assets and liabilities – as one way to measure the Hospital's financial health, or financial position. Over time, increases or decreases in the Hospital's net assets are one indicator of whether its financial health is improving or detoriating. You will need to consider other nonfinancial factors, however, such as changes in the Hospital's patient base and measures of the quality of service it provides to the community, as well as local economic factors to assess the overall health of the Hospital.

The Statement of Cash Flows

The final required statement is the statement of cash flows. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing and financing activities. It provides answers to such questions as, "Where did cash come from?" "What was cash used for?" and "What was the change in cash balance during the reporting period?"

The Hospital's Net Assets

Pomerene Hospital's net assets were $24,381,294, $24,514,007 and $23,539,510 in 2007, 2008, and 2009, respectively. Table 1 provides a summary of the Hospitals total net assets for 2009 compared to 2008 and 2007.

Table 1
Net Assets

	2009	2008	2007
Assets			
Current assets	$ 5,964,482	$ 7,847,655	$ 7,996,540
Assets whose use is limited	6,944,679	6,031,542	5,076,514
Other assets	131,018	248,372	481,483
Capital assets	14,015,025	14,993,020	14,053,049
Total assets	$ 27,055,204	$ 29,120,589	$ 27,607,586
Liabilities			
Current liabilities	2,157,761	3,086,378	3,108,190
Long-term liabilities	1,357,933	1,520,204	118,102
Total liabilities	$ 3,515,694	$ 4,606,582	$ 3,226,292
Net assets			
Capital assets net of related debt	12,485,499	13,287,399	13,778,869
Unrestricted	10,386,631	10,508,058	9,302,353
Restricted	667,380	718,550	1,300,072
Total net assets	$ 23,539,510	$ 24,514,007	$ 24,381,294

The Hospital transfers excess cash to assets limited as to use. The assets limited as to use at the end of 2009 were $6,944,679 compared to $6,031,542 and $5,076,514 at the end of 2008 and 2007, respectively.

Operating Results and Changes in the Hospital's Net Assets

Table 2 shows the changes in revenues and expense for 2009 compared to 2008 and 2007.

Table 2
Revenues and Expenses

	2009	2008	2007
Revenue			
Net patient service revenue	$ 29,097,896	$ 30,092,018	$ 27,510,839
Other revenues	783,781	734,931	198,442
Total revenue	29,881,677	30,826,949	27,709,281
Operating expenses			
Salaries and wages	12,521,889	12,753,575	12,293,228
Employee benefits	3,577,729	3,460,328	3,318,456
Supplies and other	7,711,183	8,306,278	8,476,731
Medical professional fees	5,326,386	4,388,962	3,690,218
Physician recruiting	94,008	155,210	351,219
Depreciation	1,774,954	1,647,372	1,422,160
Other	20,768	19,000	25,147
Total expenses	31,026,917	30,730,725	29,577,159
Operating income (loss)	(1,145,240)	96,224	(1,867,878)
Non operating Income	116,791	183,701	295,576
Federal grant	-	-	2,468,975
NE Network Grant expenses	-	-	(28,327)
Change in fair value of investments	53,952	(147,212)	(4,124)
Change in net assets	$ (974,497)	$ 132,713	$ 864,222

Net Patient Service Revenues

Compared to 2008, net patient service revenues decreased $994,122 or 3.3% in 2009.

For fiscal year 2009, the Hospital Board of Trustees approved a price increase of 5%. Inpatient admissions decreased 3% and outpatient registrations were down 1%.

Deductions from Revenue

Deductions from revenue expressed as a percentage of gross revenues were 49% in 2009 and 2008.

Charity care for 2009 increased 18% when compared to 2008 levels. In the 1980's the State of Ohio developed a program designed to help hospitals address the increasing number of low income, special needs patients. The Hospital Care Assurance Program (HCAP) is funded through an assessment of all Ohio hospitals and matched with federal funds. The entire pool of funds is then redistributed to all Ohio hospitals with no guarantee that each hospital will receive back its initial assessment. For 2009, Pomerene Hospital's HCAP distribution was $374,756 more than its assessment, compared to $195,093 in 2008.

Operating Expenses

Total operating expenses in 2009 increased from 2008 levels by $296,192 or 1.0%.

Salary & Wages

Total FTEs increased 2.1% from 2008 to 2009.

Employee Benefits

The amounts paid relating to employee benefits for the Hospital increased $117,401 from 2008 to 2009.

Medical and Professional Fees

Medical and professional fees increased $937,424 in 2009 when compared to 2008.

Nonoperating Revenues and Expenses

Nonoperating revenues consist primarily of investment income and changes in fair value of investments.

The Hospital's Cash Flows

Changes in the Hospital's cash flows are consistent with changes in operating losses and nonoperating revenues and expenses, discussed earlier.

Capital Assets

Business-type capital assets decreased from $14,993,020 in 2008 to $14,015,025 in 2009. The decrease relates to $1,774,954 in depreciation expense, offset by $796,959 in capital additions. Major capital additions include the purchase of computer equipment and software, buildings, and medical equipment.

Debt

At December 31, 2009, the Hospital had $1,529,526 in outstanding borrowings under notes payable and capital leases. In 2009, the Hospital entered into a capital lease for $28,893. In 2008, the Hospital entered into a note payable for $1,250,000 and two capital leases totaling $394,408. The note payable contains certain restrictive covenants that the Hospital was in compliance with at December 31, 2009.

Other Economic Factors

The Hospital's Board and management considered many factors when setting the 2010 budget. Of primary importance in setting the budget was the status of the local economy, which takes into account market focus and other environmental factors such as the following:

- Demographics and impact areas of population growth and the expanding need for services
- Continuously increasing expectations of quality improvements
- Advances in medical equipment technology and the need to replace obsolete equipment
- Increasing emphasis on the integrity of financial information
- Increasing number of uninsured patients
- Increasing cost of medical supplies

The focus of management is to implement a multi-year plan that will emphasize expanded services to all areas of Holmes County, continuous quality improvement, cost control, and capital requirements.

The 2010 Operating Budget

The Board of Trustees approved the 2010 Operating Budget at its November 2009 meeting. The Budget was developed in conjunction with internal and external economic factors including the expected level of inflation, salary and wage surveys, new physicians and new services. The 2010 budget has 3% lower net revenues compared to 2009.

The 2010 budget calls for operating gain of $698,064 or a 2.5% operating margin.

Contacting the Hospital's Management

This financial report is intended to provide the people of Holmes County, the state and federal governments, and our debt holders with a general overview of the Hospital's finances, and to show the Hospital's accountability for the money it receives from the services it provides. If you have any questions about this report or need additional information, we welcome you to contact the Chief Financial Officer at 981 Wooster Road, Millersburg, Ohio 44654.

JOEL POMERENE MEMORIAL HOSPITAL
COMBINED BALANCE SHEETS
DECEMBER 31, 2009 AND 2008

ASSETS

	2009	2008
Current assets		
Cash and cash equivalents	$ -	$ 1,828,529
Investments	658,422	640,475
Patient accounts receivable, net of uncollectible accounts of $1,517,000 in 2009 and $2,002,000 in 2008	4,239,429	4,281,384
Current portion of pledges receivable, less allowance for uncollectible pledges	21,122	70,684
Inventories	584,679	438,108
Estimated third-party settlements	-	285,726
Prepaid expenses and other assets	460,830	302,749
Total current assets	5,964,482	7,847,655
Other	131,018	248,372
Assets limited as to use	6,944,679	6,031,542
Capital assets, net of depreciation	14,015,025	14,993,020
Total assets	$ 27,055,204	$ 29,120,589

LIABILITIES AND NET ASSETS

	2009	2008
Current liabilities		
Accounts payable	$ 570,756	$ 662,039
Accrued salaries, wages and employee benefits	1,190,370	1,839,123
Other accrued expenses	225,042	399,799
Current portion of long-term debt and leases	171,593	185,417
Total current liabilities	2,157,761	3,086,378
Long-term debt, net of current portion	1,357,933	1,520,204
Total liabilities	3,515,694	4,606,582
Net assets		
Unrestricted	10,386,631	10,508,058
Capital assets, net of related debt	12,485,499	13,287,399
Restricted by donor for specific uses	667,380	718,550
Total net assets	23,539,510	24,514,007
Total liabilities and net assets	$ 27,055,204	$ 29,120,589

See accompanying notes to combined financial statements.

JOEL POMERENE MEMORIAL HOSPITAL

COMBINED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS
YEARS ENDED DECEMBER 31, 2009 AND 2008

	2009	2008
Revenue		
Net patient service revenue	$ 29,097,896	30,092,018
Other operating revenue	783,781	734,931
Total revenue	29,881,677	30,826,949
Expenses		
Salaries and wages	12,521,889	12,753,575
Employee benefits	3,577,729	3,460,328
Supplies and other	7,711,183	8,306,278
Medical professional fees	5,326,386	4,388,962
Physician recruiting and incentive	94,008	155,210
Depreciation and amortization	1,774,954	1,647,372
Other	20,768	19,000
Total operating expenses	31,026,917	30,730,725
Operating income (loss)	(1,145,240)	96,224
Nonoperating gains (losses)		
Non-operating income, net	116,791	183,701
Change in fair value of investments	53,952	(147,212)
Nonoperating gains (losses)	170,743	36,489
Change in net assets	(974,497)	132,713
Net assets, beginning of year	24,514,007	24,381,294
Net assets, end of year	$ 23,539,510	$ 24,514,007

See accompanying notes to combined financial statements.

JOEL POMERENE MEMORIAL HOSPITAL

COMBINED STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2009 AND 2008

	2009	2008
Cash flows from operating activities		
Cash received from patients and third-party payors	$ 29,425,577	$ 30,647,907
Cash paid to suppliers for services and goods	(13,605,683)	(12,756,578)
Cash payments to employees for services	(16,748,371)	(16,244,692)
Other operating revenue received	833,343	854,255
Net cash from operating and nonoperating activities	(95,134)	2,500,892
Cash flows from capital and related financing activities		
Acquisition and construction of capital assets	(768,066)	(2,192,935)
Issuance of long term debt	-	1,250,000
Principal payments on long term debt	(50,000)	(25,000)
Principal payments on capital leases	(154,988)	(187,967)
Net cash from capital and related financing activities	(973,054)	(1,155,902)
Cash flow from investing activities		
Interest on investments	116,791	183,701
Change in fair value of investments	53,952	(147,212)
Net change in investments and assets whose use is limited	132,460	346,842
Net cash from investing activities	303,203	383,331
Net change in cash and cash equivalents	(764,985)	1,728,321
Cash and cash equivalents - beginning of year	7,760,752	6,032,431
Cash and cash equivalents- end of year	$ 6,995,767	$ 7,760,752
Cash and cash equivalents include the following:		
Cash and equivalents	$ -	$ 1,828,529
Investments cash and cash equivalents	359,911	224,963
Assets limited as to use cash and cash equivalents:		
Board designated for future capital improvements	6,576,596	5,648,356
Funds available for future construction and equipment	59,260	58,904
Total cash and cash equivalents	$ 6,995,767	$ 7,760,752
Supplemental disclosure of cash flow information		
Cash paid for interest	$ 27,389	$ 10,533
Capital assets acquired under capital leases	$ 28,893	$ 394,408

See accompanying notes to combined financial statements.

A reconciliation of operating income (loss) from operations to net cash flows from operating activities follows:

	2009	2008
A reconciliation of the operating income (loss) to net cash flows from operating activities:		
Operating income (loss)	$ (1,145,240)	$ 96,224
Adjustments to reconcile operating income (loss) to net cash flows from operating activities:		
Depreciation and amortization	1,774,954	1,647,372
Bad debt expense	1,754,225	3,165,843
Changes in assets and liabilites:		
Patient accounts receivable	(1,712,270)	(2,409,468)
Pledges receivable	49,562	119,324
Inventories	(146,571)	3,586
Prepaid expenses and other assets	(40,727)	129,648
Accounts payable	(91,283)	30,549
Accrued expenses	(823,510)	(81,700)
Estimated third-party settlements	285,726	(200,486)
Net cash from operating activities	$ (95,134)	$ 2,500,892

1. NATURE OF OPERATIONS

The accompanying combined financial statements include the accounts of Joel Pomerene Memorial Hospital (the Hospital) and its subsidiary, Joel Pomerene Foundation (collectively, the Organization). All significant intercompany transactions and balances have been eliminated in consolidation.

Joel Pomerene Memorial Hospital (the Hospital) is a general acute care hospital owned by Holmes County, Ohio. The ultimate responsibility and ownership of the Hospital is vested in the Holmes Country Board of Commissioners who, together with the Probate and Common Pleas Court Judges, appoint a Board of Trustees for the administrative control of the Hospital. The Hospital's activity is reflected as an enterprise fund in the Holmes County Financial Statements. The Hospital has 55 beds.

The financial statements are intended to present the financial position and the changes in financial position and, where applicable, cash flows of only that portion of the business-type activities of Holmes County that is attributable to the transactions of Joel Pomerene Memorial Hospital . They do not purport to, and do not, present fairly the financial position of Holmes County, the changes in its financial position or, where applicable, its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Joel Pomerene Foundation (the Foundation) manages and coordinates fund raising campaigns, deferred-giving programs, and similar activities for the financial and volunteer support of the Hospital. The Foundation is a blended component unit of the Hospital. The Foundation actively participates in consortia, preferred provider organizations, and similar activities and develops innovative health care delivery strategies in which to participate on behalf of the Hospital. In addition, the Foundation owns and operates the Health Professionals of Holmes County, Inc. This company employs staff which are in turn leased directly to the Hospital.

The Foundation and Health Professionals of Holmes County have been granted an exemption from federal income taxes under Section 501 (c)(3) of the Internal Revenue Code.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The combined financial statements have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental hospitals and local governmental units. Pursuant to Governmental Accounting Standards (GASB) Statement No. 20 *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting,* the Hospital has elected to apply the provisions of the Financial Accounting Standards Board (FASB) Accounting Standards Codification that do not conflict with or contradict GASB pronouncements.

Measurement Focus

The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the Organization are included on the statement of net assets.

Basis of Accounting

The financial statements are prepared using the accrual basis of accounting.

Cash and Cash Equivalents

Cash and investments with a maturity of three months or less at the time they are purchased by the Organization are considered to be cash equivalents.

Investments

During fiscal year 2009, the Organization had investments in common stock, mutual funds, government securities and corporate notes. Investment income or loss (including unrealized and realized gains and losses on investments, interest and dividends) is included in non-operating gains (losses) unless the income or loss is restricted by donor or law.

Patient Accounts Receivable and Revenue

Patient accounts receivable and revenue are recorded when patient services are performed. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payers. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

The Hospital estimates an allowance for doubtful accounts based on an evaluation of historical losses, current economic conditions, and other factors unique to the Hospital.

Inventories

Inventories consist of surgical, pharmaceutical, and medical supplies and are presented at the lower of cost or market on a first-in first-out basis.

Assets Limited as to Use

Assets limited as to use consist of invested funds designated by the Board of Trustees for future capital improvements and funds invested in accordance with agreements with a third-party.

Capital Assets

All capital assets are capitalized at cost and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The Organization maintains a capitalization threshold of five hundred dollars. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are expensed as incurred.

All reported capital assets except land are depreciated. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Improvements are depreciated over the useful lives of the related capital assets. Equipment under capital lease is amortized using the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Such amortization is included in depreciation and amortization in the financial statements.

Charity Care

The Hospital maintains a policy whereby care is provided to patients who meet certain criteria without charge or at amounts less than established rates. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue.

Federal Income Tax

The Hospital, as a political subdivision, is exempt from federal income taxes under Section 115 of the Internal Revenue Code.

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consist of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The Organization applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Subsequent events

The Organization has evaluated events or transactions occurring subsequent to the consolidated balance sheet date for recognition and disclosure in the accompanying financial statements through the date the financial statements are available to be issued, which is April 16, 2010.

Reclassifications

Certain 2008 amounts have been reclassified to conform to the 2009 presentation. These changes had no effect on previously reported changes in net assets.

3. FAIR VALUE OF FINANCIAL INSTRUMENTS

Major classes of assets and liabilities that are measured at fair value are categorized according to a fair value hierarchy that prioritizes the inputs to value techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3).

Level 1 inputs are readily determinable using unadjusted quoted prices for identical assets or liabilities in active markets. Level 2 inputs are derived from quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets (other than those included in Level 1) which are observable for the asset or liability, either directly or indirectly. Level 3 inputs are derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable. If the inputs used fall within different levels of the hierarchy, the categorization is based upon the lowest level input that is significant to the fair value measurement.

Assets measured at fair value on a recurring basis as of December 31, 2009 are as follows:

	Level 1	Level 2	Level 3	Total
Mutual funds	$ 190,769	$ -	$ -	$ 190,769
Equity securities	300,646	-	25,000	325,646
United States government obligations	-	8,177	-	8,177
Corporate notes	-	82,742	-	82,742
Total	$ 491,415	$ 90,919	$ 25,000	$ 607,334

Assets measured at fair value on a recurring basis as of December 31, 2008 are as follows:

	Level 1	Level 2	Level 3	Total
Mutual funds	$ 160,423	$ -	$ -	$ 160,423
Equity securities	316,054	-	25,000	341,054
United States government obligations	-	123,930	-	123,930
Corporate notes	-	114,387	-	114,387
Total	$ 476,477	$ 238,317	$ 25,000	$ 739,794

The Organization records its investment in non-public equity securities based on its percentage ownership of the net asset value as reported to the Organization on an annual basis. In addition, the Organization monitors the overall financial performance by reviewing the non-public company's financial statements and other information on an ongoing basis.

A reconciliation of activity for 2009 for assets measured at fair value based upon significant unobservable (non-market) information is as follows:

Balance, beginning of year	$ 25,000
Realized and urealized gains (losses) included in earnings	-
Balance, end of year	$ 25,000

A reconciliation of activity for 2008 for assets measured at fair value based upon significant unobservable (non-market) information is as follows:

Balance, beginning of year	$ 25,000
Realized and urealized gains (losses) included in earnings	-
Balance, end of year	$ 25,000

4. DEPOSITS AND INVESTMENTS

At December 31, 2009 and 2008, the carrying amount of the Organization's bank deposits for all funds was $6,995,767 and $7,760,752 respectively, and the bank balance was $7,218,732 and $7,384,287 respectively. Of the bank balance, $1,558,268 and $1,085,710 at December 31, 2009 and 2008, respectively, is covered by Federal Depository Insurance. Of the remaining balance, $0 was collateralized with securities held by the pledging financial institution's trust department or agent in the Organization's name, $5,550,553 and $6,298,577, respectively, was collateralized with securities held by the pledging institution's trust department or agent but not in the Organization's name. Certain deposits held by the Foundation, $109,911 and $0 at December 31, 2009 and 2008, respectively, were uncollateralized. Investments are stated at market value plus accrued interest. Cost values also include accrued interest. Market value is based on quoted market prices.

Investments- Investments of the Organization are reported at fair value. As of December 31, 2009 and 2008 the Organization had the following investments:

	December 31, 2009		December 31, 2008	
	Cost	Market	Cost	Market
Cash and cash equivalents	$ 4,099,880	$ 4,099,880	$ 5,047,051	$ 5,047,051
Certificates of deposit	2,895,887	2,895,887	2,713,701	2,713,701
U.S. government obligations	4,976	8,177	119,930	123,930
Mutual funds	220,783	190,769	255,789	160,423
Corporate notes	80,387	82,742	115,412	114,387
Equity securities	75,866	325,646	75,866	341,054
Total	$ 7,377,779	$ 7,603,101	$ 8,327,749	$ 8,500,546

Interest rate risk - The Ohio Revised Code has established criteria for the type of investments the Hospital may purchase. The Organization's investment policy has indicated that all investments must abide by these rules. The policy also specifically states that any investment must mature within five years, unless matched to a specific obligation or debt of the Organization. The Organization's investment policy also states that no investment will be made unless the Board of Trustees reasonably believes at the time the investment is made that the investment can be held until maturity. However, an investment may be sold prior to maturity if the Board of Trustees determines that such sale is prudent.

Credit risk - The Organization's investment credit or market ratings are summarized below:

Moody's	S&P	Morning Star	Entity	Fair Value	Maturities in years (less than 1)	Maturities in years (1-5)	As part of Total Investments
N/A-1	N/A-1	N/A-1	Commerical Savings Bank Common Stock	$ 130,784	N/A-3	N/A-3	21.5%
N/A-1	N/A-1	N/A-1	Killbuck Savings Bank Common Stock	166,860	N/A-3	N/A-3	27.5%
N/A-1	N/A-1	N/A-1	Newell-Rubbermaid Common Stock	3,002	N/A-3	N/A-3	0.5%
N/A-2	N/A-2	N/A-2	U.S. Treasury Bonds	8,177	8,177	-	1.3%
Aa2	AA+		GE Capital Corp Notes	82,741	35,918	46,823	13.6%
		3 star rating	Federated Mutual Funds - Equity	9,245	N/A-3	N/A-3	1.5%
		3 star rating	Fidelity Mutual Funds - Equity	48,797	N/A-3	N/A-3	8.0%
		5 star rating	Perkins Mutual Funds - Equity	7,133	N/A-3	N/A-3	1.2%
		3 star rating	T. Rowe Price Mutual Funds - Equity	76,639	N/A-3	N/A-3	12.6%
		3 star rating	Vanguard Mutual Funds - Equity	48,956	N/A-3	N/A-3	8.1%
N/A-1	N/A-1	N/A-1	Ohio Hospital Association Stock	25,000	N/A-3	N/A-3	4.1%
				$ 607,334	$ 44,095	$ 46,823	100.0%

N/A-1: Common Stock not publicly traded.
N/A-2: Exempt from ratings since explicitly guaranteed by a U.S. Government Agency
N/A-3: Stock investments, no maturity period to report

Concentration of credit risk - The Board of Trustees places no limit on the amount the Hospital may invest in any one issuer. See the table above for the percentage of investments as compared to the total of all investments.

5. RESTRICTED NET ASSETS

The Foundation reports net assets disaggregated into restricted and unrestricted components.

The Foundation's restricted net assets for December 31, 2009 is summarized below.

Description	Balance 12/31/2008	Contributions	Released or Expended	Adjustments	Balance 12/31/2009
Restricted net assets					
Captial Campaign:					
-Capital Additions to Joel Pomerene Memorial Hospital	$ 272,001	$ -	$ 100,000	$ (17,514)	$ 154,487
Harold B. Miley Grant					
-Nursing Education and Scholarship	386,907	-	11,245	78,017	453,679
Ken Hochstelter Memorial					
- Radiology education	4,720	-	-	-	4,720
Memorials Fund					
- General Memorial Fund	670	-	-	-	670
Stan Boyd Emergency Fund					
- Prescription purchases	2,599	1,383	669	-	3,313
Emergency Medical Fund					
- Prescription purchases	1,653	-	1,142	-	511
Elisa Galley Estate					
-Elderly/Handicapped parking lot	50,000	-	-	-	50,000
	$ 718,550	$ 1,383	$ 113,056	$ 60,503	$ 667,380

6. PATIENT ACCOUNTS RECEIVABLE

The details of patient accounts receivable are set forth below:

	December 31, 2009	December 31, 2008
Total patient accounts receivable	$ 8,642,274	$ 9,613,535
Less allowance for:		
Contractual adjustments	2,885,845	3,330,151
Uncollectible adjustments	1,517,000	2,002,000
Net patient accounts receivable	$ 4,239,429	$ 4,281,384

The Hospital provides services without collateral to patients, most of who are local residents and are insured under third-party payor agreements. The composition of revenue and receivables from patients and third-party payors follows:

	2009		2008	
	Accounts Receivable	Gross Revenue	Accounts Receivable	Gross Revenue
Medicare	27%	33%	22%	32%
Medicaid	11%	12%	9%	11%
Commercial and other	29%	32%	30%	34%
Self-pay	33%	23%	39%	23%
	100%	100%	100%	100%

7. PLEDGES RECEIVABLE

During 2002, the Foundation began a capital campaign to solicit funds in support a building project planned by Joel Pomerene Memorial Hospital. As a part of this campaign, the Foundation received pledges to contribute over the next 5 years. The following schedule summarizes gross pledge support by year in which the receipt is expected and reconciles gross pledges receivable to the pledges less the allowance for uncollectible accounts:

	December 31,	
	2009	2008
Receivable in less than one year	$ 142,323	$ 150,208
Receivable greater than one year but less than five years	12,650	33,342
Total pledges receivable	154,973	183,550
Less allowance for uncollectible pledges	(133,851)	(112,866)
	$ 21,122	$ 70,684

8. PATIENT SERVICE REVENUE

The Hospital has agreements with payors that provide for reimbursement to the Hospital at amounts different from its established rates. Contractual adjustments under third-party reimbursement programs represent the difference between the Hospital's established rates for service and amounts reimbursed by third-party payors. The basis of reimbursements with these third-party payors follows:

Medicare - Inpatient, acute-care services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Certain outpatient services, including ambulatory surgery, radiology, and laboratory services are reimbursed on an established fee-for-service methodology. Reimbursement for other outpatient services is based on the prospectively determined ambulatory payment classification system.

Medicaid - Inpatient, acute-care services rendered to Medicaid program beneficiaries are also paid at prospectively determined rates per discharge. Capital costs relating to Medicaid patients are paid on a cost reimbursement method. Outpatient and physician services are reimbursed on an established fee-for-service methodology.

The Medicaid payment system in Ohio is prospective, whereby rates for the following state fiscal year beginning July 1 are based upon filed cost reports for the preceding calendar year. The continuity of this system is subject to the uncertainty of the fiscal health of the State of Ohio, which can directly impact future rates and the methodology currently in place. Any significant changes in rates, or the payment system itself, could have a material impact on the future Medicaid funding to providers.

Cost report settlements result from the adjustment of interim payments to final reimbursement under these programs and are subject to audit by fiscal intermediaries. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. Although these audits may result in some changes in these amounts, they are not expected to have a material effect on the accompanying combined financial statements. Medicare cost reports have been settled through 2007 and Medicaid cost reports have been settled through 2004.

The Hospital has also entered into payment arrangements with certain commercial insurance carriers, health maintenance organizations and preferred provider organizations. The basis for payments to the Hospital under these arrangements include prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

9. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2009 was as follows:

	2008	Additions	Retirements	2009
Land	$ 601,920	$ -	$ -	$ 601,920
Land improvements	768,402	18,032	-	786,434
Construction in progress	-	-	-	-
Building and fixed equipment	17,739,249	370,937	(307,977)	17,802,209
Moveable equipment	12,959,619	407,990	(2,460,306)	10,907,303
Sub-specialty medical clinic	214,198	-	-	214,198
Modular medical office building	560,323	-	-	560,323
OB/GYN clinic moveable equipment	34,000	-	-	34,000
OB/GYN clinic	169,583	-	(169,583)	-
Total capital assets	33,047,294	796,959	(2,937,866)	30,906,387
Less accumlated depreciation				
Land improvements	546,358	28,866	-	575,224
Building and fixed equipment	7,337,588	581,099	(307,977)	7,610,710
Moveable equipment	9,517,980	1,025,082	(2,460,306)	8,082,756
Sub-specialty medical clinic	143,017	1,003	-	144,020
Modular medical office building	448,979	205	-	449,184
OB/GYN clinic moveable equipment	37,685	131,898	(169,583)	-
OB/GYN clinic	22,667	6,801	-	29,468
Total accumulated depreciation	18,054,274	1,774,954	(2,937,866)	16,891,362
Capital assets, net	$ 14,993,020	$ (977,995)	$ -	$ 14,015,025

Capital asset activity for the year ended December 31, 2008 was as follows:

	2007	Additions	Retirements	2008
Land	$ 578,987	$ 22,933	$ -	$ 601,920
Land improvements	768,402	-	-	768,402
Construction in progress	776,443	(776,443)	-	-
Building and fixed equipment	15,249,314	2,489,935	-	17,739,249
Moveable equipment	12,158,447	850,918	(49,746)	12,959,619
Sub-specialty medical clinic	214,198	-	-	214,198
Modular medical office building	560,323	-	-	560,323
OB/GYN clinic moveable equipment	34,000	-	-	34,000
OB/GYN clinic	169,583	-	-	169,583
Total capital assets	30,509,697	2,587,343	(49,746)	33,047,294
Less accumlated depreciation				
Land improvements	514,644	31,714	-	546,358
Building and fixed equipment	6,802,846	534,742	-	7,337,588
Moveable equipment	8,506,609	1,061,117	(49,746)	9,517,980
Sub-specialty medical clinic	141,806	1,211	-	143,017
Modular medical office building	448,496	483	-	448,979
OB/GYN clinic moveable equipment	26,380	11,305	-	37,685
OB/GYN clinic	15,867	6,800	-	22,667
Total accumulated depreciation	16,456,648	1,647,372	(49,746)	18,054,274
Capital assets, net	$ 14,053,049	$ 939,971	$ -	$ 14,993,020

10. LONG TERM DEBT

The following is a summary of the Hospital's long-term debt:

	December 31, 2009	
	Note payable	Capital lease
Debt outstanding January 1, 2009	$ 1,225,000	$ 480,621
Additions of new debt	-	28,893
Repayments	50,000	154,988
Debt outstanding December 31, 2009	$ 1,175,000	$ 354,526
Expected to be paid within one year	$ 50,000	$ 121,593

	December 31, 2008	
	Note payable	Capital lease
Debt outstanding January 1, 2008	$ -	$ 274,180
Additions of new debt	1,250,000	394,407
Repayments	25,000	187,966
Debt outstanding December 31, 2008	$ 1,225,000	$ 480,621
Expected to be paid within one year	$ 50,000	$ 135,417

In 2008, the Hospital obtained a $1,250,000, unsecured interest-free, loan from Aultman Health Foundation (Aultman), with monthly principal only payments of $4,167 through July 2033. Aultman has option to call loan in July 2018. Future minimum principal and interest payments follow:

	Note
2010	$ 50,000
2011	50,000
2012	50,000
2013	50,000
2014	50,000
2015-2018	925,000
Total payments	1,175,000
Less amount representing interest	-
Total	$ 1,175,000

The Hospital has entered into various non-cancelable capital lease agreements for equipment. These capital leases are due in monthly installments including interest at rates ranging from 2.8% to 7.5%. They expire at various times through 2013 and are collateralized by the equipment leased.

The Hospital has entered into operating lease agreements for equipment, which expire at various times through 2014. Operating lease expense totaled $506,776 in 2009 and $374,926 in 2008.

Effective March 1, 1999, the Hospital signed a six-year lease agreement for office space from Aultman Health Foundation. The lease expired March 1, 2009. Effective March 1, 2009, the Hospital signed a five-year lease agreement for office space from Family Properties, Ltd. The lease expires in February 2014 with the option to lease for up to two additional terms of five years each. In addition, the Hospital signed five-year sub-lease agreements with various businesses in the area for this office space. The total amount of rentals to be received in the future under these sub-leases is $601,417. Office lease expense totaled $140,919 and $145,640 in 2009 and 2008, respectively.

Effective April 27, 2004, the Hospital signed a ten-year lease agreement for a medical facility in Berlin, Ohio. The lease expires in 2014 with the option to lease for additional three year terms. Lease expense was $158,500 and $134,342 in 2009 and 2008, respectively.

Minimum payments on these obligations to maturity as of December 31, 2009 are as follows:

	Capital Leases	Operating Lease	Total
2010	$ 143,322	$ 351,346	$ 494,668
2011	104,191	352,669	456,860
2012	99,926	354,019	453,945
2013	54,705	355,395	410,100
2014	-	71,089	71,089
Total payments	402,144	1,484,518	1,886,662
Less amount representing interest	47,618	-	47,618
Total	$ 354,526	$ 1,484,518	$ 1,839,044

The Hospital's long-term debt and capital leases are stated at the historical amount, which approximate the fair value at December 31, 2009. The current rates and terms offered to the hospital are comparable to the weighted average interest rates and terms of the current outstanding long-term debt and capital leases.

	December 31	
	2009	2008
Cost of equipment under capital lease	$ 1,165,718	$ 1,136,825
Less: Accumulated Depreciation	668,742	339,854
Net carrying amount	$ 496,976	$ 796,971

The Hospital is required to meet certain covenants with respect to the Aultman note agreement, including minimum debt service coverage. The Hospital was in compliance with these covenants at December 31, 2009.

11. CHARITY CARE

The Hospital provides medical care without charge, or at a reduced cost, to residents of its community, primarily through (1) services provided at no charge to the uninsured; (2) the difference between public programs' payments (primarily Medicare and Medicaid) and the related costs of providing such services; and (3) the services provided to patients expressing a willingness to pay but who are determined to be unable to pay because of socioeconomic factors. The Hospital maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges foregone for service and supplies furnished under its charity care policy. Charges foregone for services rendered under the Hospital's charity care policy were approximately $1,517,000 and $1,282,000 in 2009 and 2008, respectively.

12. NET PATIENT SERVICE REVENUE

The Hospital provides services to certain patients covered by various third-party payer arrangements that provide fixed payments to the Hospital at amounts different than its established rates. Gross patient service revenue and the allowances to reconcile to net patient service revenue for the years ended December 31, 2009 and 2008 are as follows:

	Year Ended December 31	
	2009	2008
Gross patient service revenue	$ 56,671,943	$ 58,450,858
Revenue deductions:		
Provision for contractual allowances	24,303,104	23,910,728
Bad debts	1,754,225	3,165,843
Charity	1,516,718	1,282,269
Total revenue deductions	27,574,047	28,358,840
Total net patient service revenue	$ 29,097,896	$ 30,092,018

13. PENSION PLANS

The Hospital contributed to the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans: The Traditional Pension Plan – a cost sharing multiple-employer defined benefit pension plan; the Member-Directed Plan (MD) – a defined contribution plan; and the Combined Plan (CO) – a cost sharing multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan.

OPERS maintains a cost-sharing multiple employer defined benefit post-employment healthcare plan, which includes a medical plan, prescription drug program and Medicare Part B premium reimbursement, to qualifying members of both the Traditional Pension and the Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits, including post-employment health care coverage.

In order to qualify for post-employment health care coverage, age-and-service retirees under the Traditional Pension and Combined Plans must have 10 or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS meets the definition of an Other Post Employment Benefit (OPEB) as described in GASB Statement 45.

The Ohio Revised Code permits, but does not mandate, OPERS to provide OPEB benefits to its eligible members and beneficiaries. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code.

OPERS issues a stand-alone financial report. Interested parties may obtain a copy by writing OPERS, 277 East Town Street, Columbus OH 43215-4642, or by calling 614-222-5601 or 800-222-7377.

Funding Policy

The Ohio Revised Code provides the statutory authority requiring public employers to fund post retirement health care through their contributions to OPERS. A portion of each employer's contribution to OPERS is set aside for the funding of post retirement health care benefits.

Employer contribution rates are expressed as a percentage of the covered payroll of active members. In 2009, state and local employers contributed at a rate of 14.0% of covered payroll. The Ohio Revised Code currently limits the employer contribution to a rate not to exceed 14.0% of covered payroll for state and local employer units. Active members do not make contributions to the OPEB Plan.

OPERS' Post Employment Health Care plan was established under, and is administrated in accordance with, Internal Revenue Code 401(h). Each year, the OPERS Retirement Board determines the portion of the employer contribution rate that will be set aside for funding of post employment health care benefits. The portion of employer contributions allocated to health care was 7.00% from January 1 through March 31, 2009 and 5.5% from April 1 through December 31, 2009. The OPERS Retirement Board is also authorized to establish rules for the payment of a portion of the health care coverage by the retiree or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected.

The Hospital's contributions, representing 100% of employer contributions, for the last three years follow:

Year	Contribution	
2009	$	1,542,000
2008	$	1,478,000
2007	$	1,382,000

The portion of the Hospital's contribution in the above table was made to fund post-employment health care benefits approximated $647,000, $739,000 and $691,000 for 2009, 2008, and 2007, respectively.

The Health Care Preservation Plan (HCPP) adopted by the OPERS Retirement Board on September 9, 2004, was effective January 1, 2007. Member and employer contribution rates for state and local employers increased on January 1 of each year from 2006 to 2008. Rates for law and public safety employers increased over a six year period beginning on January 1, 2006, with a final rate increase on January 1, 2011. These rate increases allowed additional funds to be allocated to the health care plan.

14. ADVERTISING

The Hospital expenses advertising cost as they are incurred. Advertising expense was $13,433 and $173,775 for 2009 and 2008, respectively. Advertising expenses are included in operating expenses in the financial statements.

15. MEDICAL MALPRACTICE CLAIMS

The Hospital has purchased occurrence-based insurance to protect itself against losses from medical malpractice claims. The policy covers claims resulting from incidents that occur during the policy term, regardless of when the claims are reported to the insurance carrier. The Hospital is not aware of any medical malpractice claims, either asserted or unasserted, that would exceed the policy limits of $1,000,000 per individual claims and $3,000,000 in the annual aggregate.

16. RELATED ORGANIZATION

The Northeast Ohio Health Outreach Network (Network) is controlled by four area hospitals, one of which is Joel Pomerene Memorial Hospital. The Network was established to receive federal grant monies from the U.S. Department of Housing and Urban Development (HUD). Funds are distributed to the Hospital directly from HUD as determined by the Network. Changes in unrestricted net assets for 2009 and 2008 resulted from the following:

	Beginning Balance	Revenue	Expenses	Ending Balance
2009	$ 50,044	$ -	$ -	$ 50,044
2008	$ 75,826	$ -	$ 25,782	$ 50,044

17. COMMITMENTS

The Hospital is involved in various pending claims and lawsuits. In the opinion of the Hospital's management, after consultation with legal counsel, the potential for loss on the claims and lawsuits will not materially effect the Hospital's financial position.

18. INCOME GRANTS AND FORGIVENESS OF EDUCATIONAL LOANS

As part of the hospitals recruitment program for new physicians, the Hospital offers income grants and forgiveness of education loans in exchange for a commitment to a minimum term of service. As of December 31, 2009 and 2008, the loan receivable in connection with these income grants and forgiveness of educations loans was $150,972 and $248,372, respectively. The loans will be forgiven over time as physicians fulfill their committed term of service.

CPAs ADVISORS

blue

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Trustees
Joel Pomerene Memorial Hospital
Millersburg, Ohio

We have audited the combined financial statements of Joel Pomerene Memorial Hospital (the Hospital) as of and for the year ended December 31, 2009, and have issued our report thereon dated April 16, 2010. Our report included additional language stating the financial statements of the Hospital are intended to present the financial position and the changes in financial position and, where applicable, cash flows of only that portion of the business-type activities of Holmes County that is attributable to the transactions of the Hospital. Those financial statements do not purport to, and do not, present fairly the financial position of Holmes County as of December 31, 2009, the changes in its financial position, or, where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Hospital's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency or combination of deficiencies in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Hospital's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

We noted certain matters that we reported to management of the Hospital in a separate letter dated April 16, 2010.

This report is intended solely for the information and use of the Board of Trustees, management, and the auditor of the State of Ohio and is not intended to be and should not be used by anyone other than those specified parties.

Blue & Co., LLC

April 16, 2010

Joel Pomerene Memorial Hospital
Schedule of Prior Audit Findings
December 31, 2009

2008 – 1: Physician Recruitment Asset and Liability

In accordance with FASB Staff Position FIN 45-3, "Application of FASB Interpretation No. 45 to Minimum Revenue Guarantees Granted to a Business Or Its Owners," an adjustment was necessary to record a liability for the fair value of a guarantee with an offsetting asset recorded in other assets within the balance sheet. We recommend that management analyze new physician agreements with income guarantees for possible accounting of future commitments.

Current status:

Management analyzes physician agreements for proper accounting treatment. Corrective action was taken.

Mary Taylor, CPA
Auditor of State

JOEL POMERENE MEMORIAL HOSPITAL

HOLMES COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
MAY 20, 2010

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